

Report of the Advisory Committee

The Advisory Committee recommends the proposed Fiscal Year 2016 budget (Articles 4, 5 and 6) for Town Meeting approval.

The Town's operating budget (Articles 4, 5 and 6, less employee benefits, insurance and debt service) will increase 4.26% over the FY 2015 budget. This increase results from wage inflation and modest increases in service levels to either respond to increasing demand or to partially restore service reductions made during Fiscal Years 2009 through 2011.

Budgeted expenditures for employee benefits are .66% below FY 2015, with a 2% increase in group insurance being offset by a reduction in our Other Post Employment Benefit (OPEB) liability. Debt service is budgeted to increase by 1.7%. In FY2016, the Town will take advantage of historically low interest rates by refinancing approximately \$45 million of short-term debt into 17-year bonds at an expected interest rate of 2.5%.

The increase in expenditures for FY 2016 will be funded by a 2.5% increase in the tax levy, new growth of approximately \$850,000, modest increases in state aid and local receipts (including \$600,000 in Meals Tax revenue), and an additional \$450,000 of meals tax revenue which will be transferred from the Meals Tax Stabilization Fund.

The Town continues to strengthen its financial position while maintaining reasonable service levels and providing for the Town's capital needs. In developing the proposed FY 2016 budget, the Advisory Committee has been mindful of four important considerations: (1) delivery of Town services in the most cost-effective manner possible; (2) addressing the capital and infrastructure needs of the Town; (3) the effect of the Committee's recommendations on residential property taxes; and (4) maintenance of the Town's Aaa bond rating.

1. In constructing the FY2016 budget, the Advisory Committee was mindful of the Town's revenue outlook. The five-year forecast reflects decelerating revenue growth, driven by a decrease in new growth and an assumption that local aid will be flat for the next five years.
2. The budget presented for Town Meeting consideration is based on "level services", i.e., FY2015 service levels adjusted for FY 2016 costs. The Board of Selectmen, School Committee and Advisory Committee have considered and recommended certain strategic additions which reflect restoration of former services or new initiatives to meet increasing demand for services. These additional requests were weighed carefully, particularly when they involved additional personnel costs. The Board of Selectmen, Personnel Board, and School Committee have worked diligently this past year to ensure that Town employees are compensated fairly. The cost of employee payroll accounts for approximately 55% of the Town's total FY 2016 budget.
3. The Town is committed to providing for its capital needs within the tax levy or operating budget of the Town. Rebounding from a low in capital spending in FY 2010, there has been a slow, but steady, increase in capital funding through the capital outlay process. Working with the Capital Outlay Committee, the Advisory Committee continues to balance the need to repair and replace capital items, before such costs become unreasonable, with all of the other pressures on operating revenues. For FY2016, Capital Outlay (excluding Sewer, Recreation and the South Shore Country Club, which are funded from rate charges and user fees) is approximately \$2,168,460 which is within the range set forth in the Town Financial Policy. In addition, as with the prior year

budgets, money is included in the FY2016 Department of Public Works budget to continue road repair, leveraging state road funds for this purpose. The Warrant also includes an article to authorize the Town to borrow up to \$500,000 for design and engineering services for North Fire Station (Station #2) renovations.

4. The Advisory Committee continues to monitor the ratio of the Town's Fund Balance to the Town's Total Annual Expenditures—a key metric of fiscal health and effective management in evaluations by all three bond-rating agencies. The Town's Aaa bond rating provides the Town access to debt markets when other potential borrowers—with lower bond ratings—are unable to find purchasers for their riskier debt. The Aaa bond rating also means the Town can secure the lowest-possible interest rates for its bond offerings, resulting in lower debt- service costs funded by property taxes. The availability of debt at reasonable rates is a key component of the Town's financial assumptions. The resulting debt service costs at lower-than-projected levels also reduces the tax burden for Hingham households. In February 2014, Standard & Poors affirmed its Aaa rating for Hingham's general obligation debt, reflecting its continued confidence in the Town's financial condition and fiscal management.

The FY 2016 Article 4, 5, and 6 budgets for the Town (net of the Sewer and South Shore Country Club budgets, which are financed by rate charges and user fees) will change relative to the FY 2015 budget as follows:

	<u>FY 2015</u>	<u>FY 2016</u>
Municipal Departments:	\$23,219,066	\$24,294,536
School Department:	\$43,490,722	\$45,413,720
Capital Outlay:	\$2,236,922	\$2,168,460
Employee Benefits:	\$12,235,588	\$12,154,630
Debt Service:	\$9,500,765	\$9,661,182
Insurance and Incidentals:	<u>\$510,950</u>	<u>\$560,950</u>
TOTAL	\$91,194,013	\$94,253,478

The \$1,075,470 increase in Municipal Department budgets reflects wage and cost inflation, along with modest increases to services. All budgets have been closely scrutinized by each department head, the Town Administrator, the Board of Selectmen and the Advisory Committee. With respect to the School Department FY 2016 operating budget, the Advisory Committee is recommending an appropriation that is \$1,922,998 greater than the FY 2015 funding authorization. This increase represents wage inflation, enrollment growth, modest increases in service, and an increase in Special Education costs. It should be noted that 100% of the costs associated with Full-Day Kindergarten (beginning this fall) will be funded through tuitions and a modest grant. Prior to submitting its budget request to the Advisory Committee, the School Committee and School Administration undertook a thorough process to develop a needs-based budget, which included public hearings, including joint hearings with the Board of Selectmen and the Advisory Committee.

The FY 2016 budgets presented to Town Meeting do not reflect the full requested amounts from several departments. However, the Advisory Committee believes the proposed budgets are fair, equitable, sustainable, and represent a level of service consistent with the expectations of the Town's residents.

While all Municipal and School departments worked through the financial constraints of the last several budget cycles with no significant disruption and minimal erosion in services, increasing service demands and unfunded federal and state mandates require the allocation of additional

dollars to meet the most pressing needs. Unfunded mandates will continue to influence future budgets.

One of the most visible unfunded mandates is the special education portion of the School Department budget. Special Education costs account for \$778,765 (41%) of the total increase in the Education budget. To manage the risk of additional unanticipated and unbudgeted tuitions, the Board of Selectmen is proposing a Warrant article to transfer \$250,000 in Committed Fund Balance to the reserve fund authorized by the April 2014 Annual Town Meeting and signed into law by the Governor in January 2015. These funds represent surplus Special Education dollars from FY 2014 that were self-restricted earlier this year by votes from the School Committee, the Advisory Committee, and the Board of Selectmen in anticipation of this fund being established.

While this fund will give the Town greater flexibility to address unbudgeted costs, a statewide solution is still necessary particularly in light of reductions to circuit breaker funding as part of the Governor's 9C reductions for FY 2015. The Advisory Committee remains concerned about the chronic underfunding and delayed reimbursement from the Commonwealth of special education out-of-district tuition and transportation costs.

FINANCIAL POLICY CONFORMANCE

During FY 2015, the Advisory Committee made minor updates to the Town's Financial Policy to reflect current circumstances. While the principal foundation of the policy remains unchanged, the policy now includes a position on unused levy capacity and defines an ongoing process for reviewing the Town's outstanding debt.

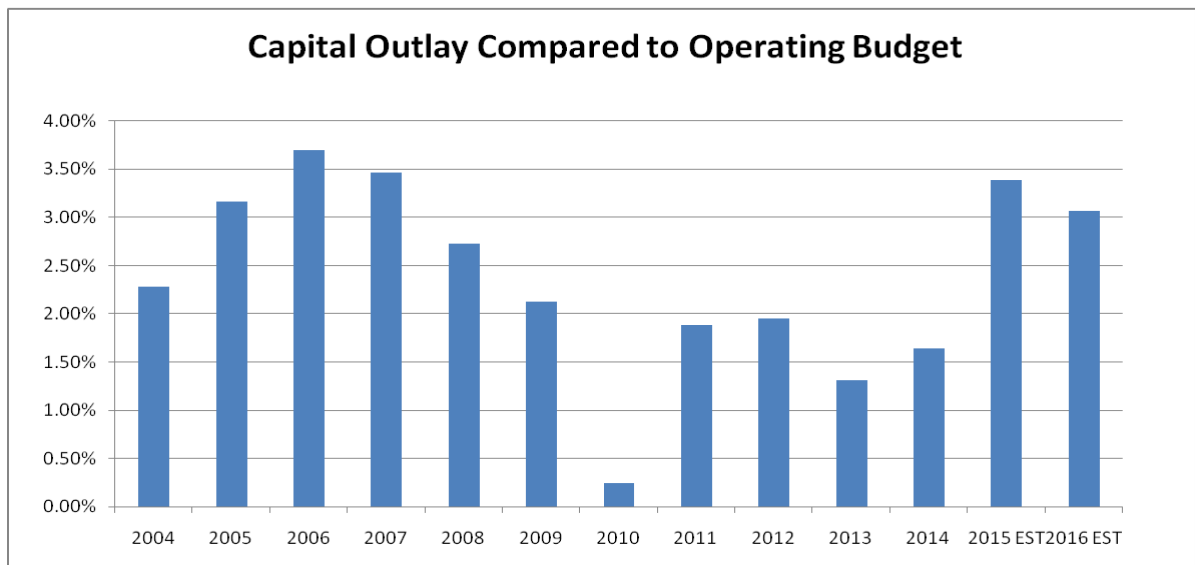
Expenditures in the proposed FY 2016 Article 6 budget conform to the Town's Financial Policy guidelines as follows:

• Unassigned Fund Balance between 16% and 20% of Total Annual Expenditures (TAE)

- Fund Balance, also known as Available Reserves or Available Funds, is the accumulation of each year's actual surpluses and deficits. In accordance with the implementation of GASB 54, Fund Balance is classified into five categories; Nonspendable, Restricted, Committed, Assigned, and Unassigned.
- Our Financial Policy calls for maintaining Unassigned Fund Balance at a level no less than 16% and as high as 20% of TAE.
- Total Fund Balance has increased from 8.9% of TAE at the end of FY 2009 to 30.51% at the end of FY 2014 (the most recently completed fiscal year). As of the end of FY 2014, total Fund Balance equalled \$25,709,663. Approximately \$8,814,587 (34.29%) is 'reserved' for particular future uses per GASB 54.
- As of the end of FY 2014, Unassigned Fund Balance equalled \$16,895,076, or 20.05% of TAE. However, several Warrant articles under consideration by the 2015 Annual Town Meeting seek funding from fund balance. The Advisory Committee has carefully assessed the impact of each of these articles on Fund Balance and the Unassigned Fund Balance ratio to TAE in making its recommendations.

- Capital Expenditures between 2% and 5% of the Operating Budget

- The proposed capital expenditures to be funded from the tax levy or available reserves account for 3% of the proposed FY 2016 operating budget. While this is the second consecutive year that capital spending has been within the limits set forth in the Town Financial Policy, the Advisory Committee recognizes there is still a backlog in capital projects due to capital underfunding in previous years.
- The Town's capital outlay continues to call for ongoing focus throughout the term of the *Five-Year Capital Plan*, including consideration of the targeted use of debt to address major capital expenditures, as is the case for FY 2016 with the proposed borrowing of \$500,000 for the North Fire Station.



- For FY 2016, the Capital Outlay Committee reviewed and evaluated departmental spending requests using the following six criteria, in descending order of importance:
 - If lack of the capital item puts citizen safety at risk
 - If the capital item is broken
 - If the department cannot function without the capital item
 - If the capital item is still functional but repairs are required that would cost 25% or more of the new item purchase price
 - If the capital item is substantially beyond its projected useful life and its failure would jeopardize performance of the department's overall mission
 - If the cost of the capital item can be recovered in three years or less
- From initial capital requests in excess of \$5,200,000 the Capital Outlay Committee (COC) recommended an FY 2016 capital budget funded from the tax levy of \$2,097,460, plus \$71,000 to be funded from mooring permit revenue in Committed Fund Balance.

- In addition, the Advisory Committee and COC recommend that the Town spend \$500,000 for design and engineering services for the North Fire Station to be funded with borrowing, if approved by Town Meeting.
- The Advisory Committee and COC also recommend that an additional \$345,000 be expended on capital outlays for the Sewer Commission (\$159,000) Recreation Commission (\$75,000), and South Shore Country Club (\$111,000)—all funded by user fees and/or rate charges.

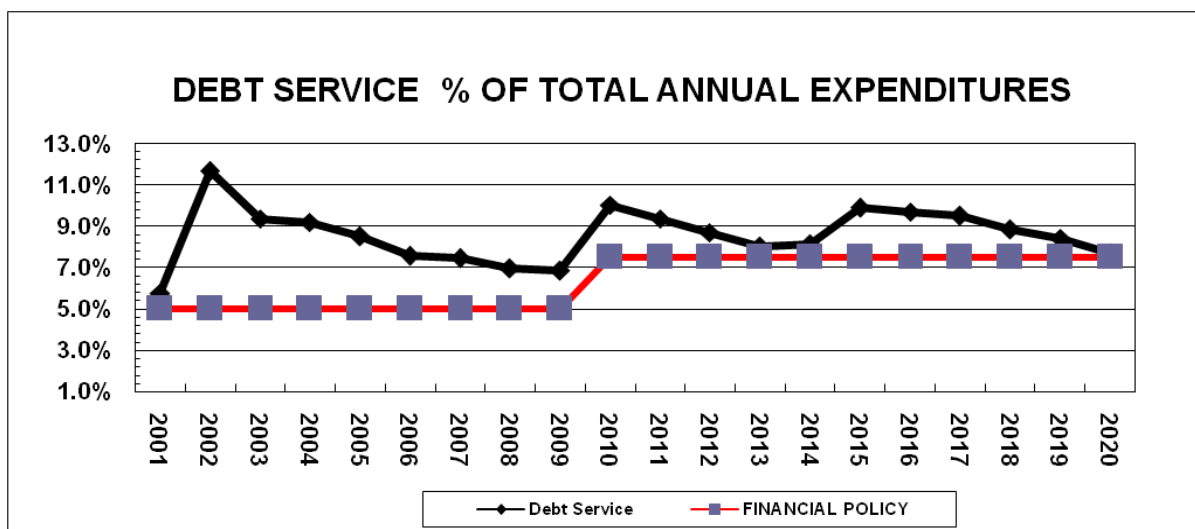
• Reserve Fund of approximately 0.75% of the Operating Budget

- Massachusetts General Laws provide for annual appropriations to a Reserve Fund from which transfers for extraordinary or unforeseen expenditures may be made from time to time, with the advice of the Board of Selectmen and the approval of the Advisory Committee. The Reserve Fund is used to save the time and expense of a Special Town Meeting for relatively low-cost items.
- In FY 2014, Reserve Fund transfers were made as follows:

<u>Department</u>	<u>Amount</u>
Project Engineering-Flood Maps	\$40,000
Accounting-Audit Services	7,500
Veterans-Salaries	13,200
Dispatch-Town Assessment	63,446
Snow & Ice	430,847
Legal	220,000
Total Approved	
Transfers-6/30/14	<u>\$774,993</u>

- Unexpended Reserve Fund for a fiscal year, if any, is returned to Fund Balance effective the end of that fiscal year.
- For FY 2015, the harsh winter has resulted in unusual and significant costs to the Town that exceed the budgeted Reserve Fund amount of \$550,000. Accordingly, this year's Town Meeting will be asked to transfer funds from Unassigned Fund Balance to the FY 2015 Reserve Fund to ensure the Town closes out the year with a balanced budget.
- The proposed FY 2016 Reserve Fund is .75% of the operating budget and .55% of total budgeted appropriations.
- Long-term financial obligation and liability funding
 - Contributory Retirement and OPEB are each funded as required by law. The FY 2016 budget recommends funding each at 100% of the Annual Required Contribution so as not to burden future generations with unsustainable or disproportionate financial obligations.
 - The FY 2016 OPEB contribution is a reduction of \$209,464 from FY 2015. This reflects a revaluation of our OPEB liability and the Town's adoption of new health insurance plans.

- Caution in incorporating long-term revenue-growth assumptions
 - The projection of New Growth revenue for FY 2016 and beyond is based on the extrapolation of building-permit activity and other indicators of the local economic outlook. As previously noted, the Town is currently forecasting New Growth to decline from FY 2016 to FY 2017 and to remain flat in future years.
 - Similarly, future Local Receipts revenue—primarily from Motor Vehicle Excise taxes—is tracked carefully and forecast conservatively.
- Non-recurring revenues and long-term costs
 - Non-recurring revenues are deposited in Fund Balance unless Town Meeting directs otherwise.
 - The Board of Selectmen and Advisory Committee continue to require full life-cycle cost projections for incorporation in budget forecasts whenever new operating and/or capital funding requests are presented.
- Debt service between 5% and 7.5% of Total Annual Expenditures
 - Debt service represents 9.71% of FY 2016 Total Annual Expenditures—a slight decrease from FY 2015.
 - This year, the Advisory Committee led a Debt Management initiative to review the risks and benefits associated with the Town’s financing posture. This initiative was incorporated into the Town Financial Policy to ensure it occurs on an ongoing basis.
 - An analysis completed by the Treasurer/Collector and Town Administrator was presented to the Board of Selectmen and Advisory Committee as part of annual budget deliberations. It resulted in a decision to refinance approximately \$45 million in short-term borrowings into long-term bonds to both take advantage of historically low long-term interest rates and ensure predictability in future debt service.
 - The graph below shows currently-authorized debt only:



- The graph indicates that, assuming no additional borrowing, debt service would conform with Financial Policy guidelines by FY 2020. However, the Advisory Committee notes that the Town is contemplating several projects that could be financed through the issuance of additional debt. These projects would be brought forward to future Town Meetings for their consideration.
- For FY 2016, as previously mentioned, the Advisory Committee and COC recommend that the Town spend \$500,000 for design and engineering services for the North Fire Station to be funded with borrowing.

FY 2016 TAX RELIEF

As in previous years, the FY 2016 budget includes tax relief for the benefit of all taxpayers. Pursuant to Article 14 of the April 2013 Annual Town Meeting, \$450,000 of meals tax receipts from prior years, currently held in the Meals Tax Stabilization Fund, will be transferred for the purposes of FY 2016 tax relief. In addition, \$600,000 of FY 2016 meals tax receipts (now part of local receipts) will fund FY 2016 tax relief. By using meals tax receipts to offset some borrowing costs associated with the Middle School construction project, the Town can reduce the amount of property tax it will raise under the October 2011 debt exclusion. The tax rate for FY 2016 will still be higher than in FY 2015; however, the amount of increase will be less than it would be otherwise.

The Town's financial forecast includes tax relief in future years, but there is no guarantee that the Town's financial condition will support it. Further, it is important to note that by choosing not to raise taxes to the maximum level in FY 2015, the Town created \$400,000 in unused levy capacity. Adoption of the FY 2016 budget will create \$500,000 in unused levy capacity.

While unused levy capacity is not cumulative (taxes foregone in one fiscal year cannot be recouped in a future year), it does carry-forward. As a result, future Town Meetings will have the ability to increase taxes up to the full levy capacity. If a future Town Meeting chooses to use all or some of the now existing unused levy capacity, the resulting increase in taxes will be disproportionate to the historical trend.

The Town could make tax relief permanent by enacting a property tax override to permanently reduce the property tax base. This would require both a Town Meeting vote and a ballot vote. No such proposal is contemplated at this time.

The Town's current budgeting process includes appropriate checks and balances to manage the risk of tax rate volatility. While the Town's recent history of fiscal discipline and responsibility bode well for the future, continued diligence by the Board of Selectmen and the Advisory Committee is necessary to ensure the ongoing success of this tax relief proposal.

REVENUE SOURCES AND USES

For 2016, total budgeted Uses include Article 4, 5 and 6 appropriations of \$99,532,257 and amounts reserved for State Assessments, Overlay and Other Expenses totaling \$1,300,205.

The aggregate budget uses for FY 2016 of \$100,832,462 balance to the forecasted revenue Sources of \$100,841,771, resulting in a projected Excess (i.e., surplus) of \$9,309.

	ACTUALS	ESTIMATE	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST
	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
SOURCES							
Tax Levy							
Levy	63,382,432	66,131,397	68,832,769	71,403,588	73,738,678	76,132,145	78,585,448
2 1/2 % increase	1,584,561	1,653,285	1,720,819	1,785,090	1,843,467	1,903,304	1,964,636
New growth	1,164,404	1,048,087	850,000	550,000	550,000	550,000	550,000
Debt exclusions	3,568,485	4,755,700	4,786,120	4,574,327	4,154,883	3,899,295	3,913,093
Unused Levy Capacity	0	(400,000)	(500,000)	(500,000)	(500,000)	(500,000)	(500,000)
Total Tax Levy	69,699,882	73,188,469	75,689,708	77,813,005	79,787,028	81,984,744	84,513,178
Other Revenue							
State Aid	9,870,447	10,061,002	10,195,338	10,195,338	10,195,338	10,036,872	10,036,872
Local Receipts	8,159,397	8,462,074	8,775,642	8,995,033	9,219,909	9,450,406	9,686,667
Fund Balance	53,000	347,811	396,000	0	0	0	0
SSCC	2,048,718	2,181,127	2,231,877	2,231,877	2,231,877	2,231,877	2,231,877
Sewer	2,410,585	2,475,163	2,603,206	2,799,524	3,013,553	3,247,007	3,501,770
Light Plant	500,989	500,000	500,000	500,000	500,000	500,000	500,000
Meals Tax Reserves		450,000	450,000	450,000	450,000	450,000	0
Total Other Revenue	23,043,136	24,477,177	25,152,063	25,171,771	25,610,676	25,916,163	25,957,185
Total Sources	92,743,018	97,665,646	100,841,771	102,984,777	105,397,705	107,900,906	110,470,364
USES							
State Assessments	805,781	809,719	850,205	871,460	893,247	915,578	938,467
Overlay	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Other expenses / deficits	0	100,000	100,000	100,000	100,000	100,000	100,000
Total	1,155,781	1,259,719	1,300,205	1,321,460	1,343,247	1,365,578	1,388,467
Appropriations							
Capital Outlay	844,365	2,451,422	2,327,460	2,200,000	2,300,000	2,400,000	2,500,000
Article 6	87,120,889	93,764,159	96,761,101	98,897,503	100,716,346	102,579,454	104,593,740
Article 4&5	0	116,154	443,696	801,958	1,167,386	1,540,122	1,920,313
Other articles	156,711	0	0	0	0	0	0
Total appropriation	88,121,965	96,331,735	99,532,257	101,899,461	104,183,732	106,519,576	109,014,052
Total Uses	89,277,746	97,591,454	100,832,462	103,220,921	105,526,978	107,885,154	110,402,519
EXCESS (Shortfall)	3,465,272	74,192	9,309	(236,144)	(129,274)	15,752	67,844

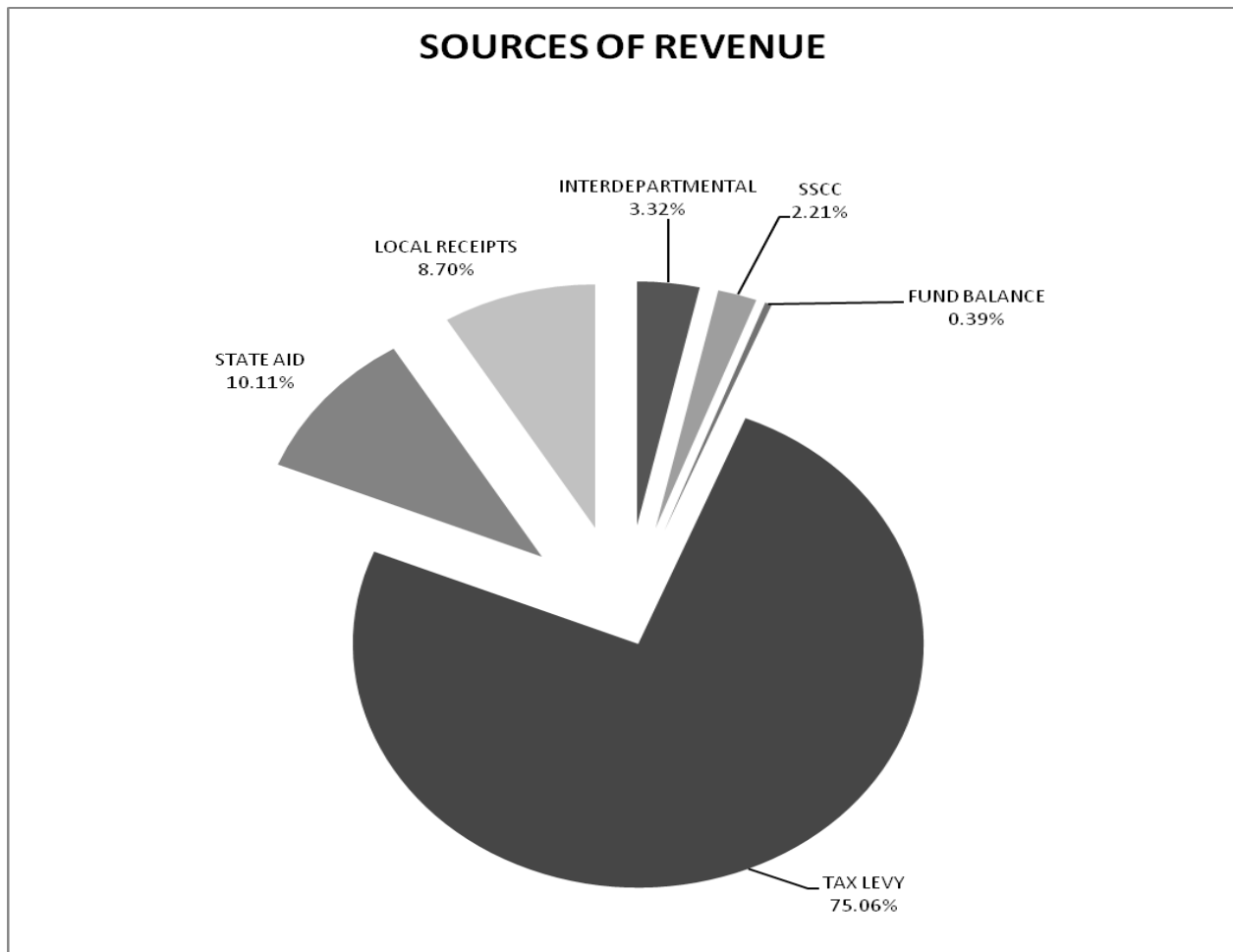
As indicated in the chart, New Growth revenue—the amount by which the property tax base increases due to new development or improvement to existing properties—is forecast to be approximately \$198,087 less in 2016 than in 2015. The forecast for FY 2017 reflects a further reduction of \$300,000 from FY 2016 and remains flat in the foreseeable future. While there are opportunities for new growth, the realization of these opportunities is dependent on a number of

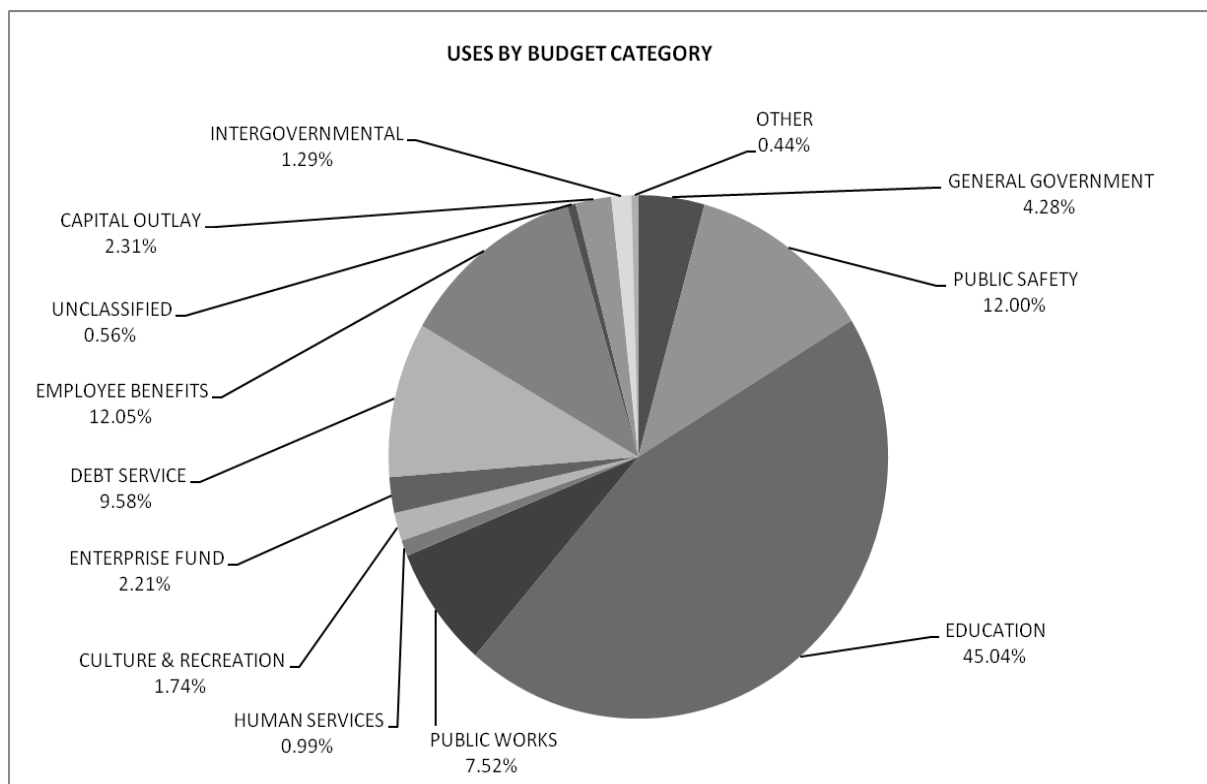
variables, many of which are outside the control of the Town; accordingly, conservative forecasting is both prudent and necessary.

The Advisory Committee notes the reduction in new growth will make it increasingly difficult to fund future new services or initiatives.

With regard to particular Other Revenue line items:

- SSSC (South Shore Country Club) revenues of \$2,231,877 fully offset operating, capital expenses, and employee benefits costs, all of which are included in the Article 6 Uses total.
- Sewer revenues of \$2,603,206 fully offset sewer operating, debt, capital expense, and employee benefits costs, all of which are included in the Article 6 Uses total.
- Light Plant revenue of \$500,000 is a Payment In Lieu Of Taxes (PILOT).
- Fund balance (\$396,000) includes \$71,000 from Committed Fund Balance to fund Harbormaster capital outlay and \$325,000, which represents surplus dollars from the Assessor's overlay budget from previous years.





ADVISORY COMMITTEE RECOMMENDATIONS

The Advisory Committee is a proxy for Town Meeting—the legislative body of the Town. The Advisory Committee has studied, discussed, and recommended; Town Meeting will make the final decisions regarding the proposed FY 2016 budget and the Warrant’s other articles.

The Advisory Committee has voted to recommend the budget amounts presented in Articles 4, 5, and 6 for approval by Town Meeting.

In addition, the Advisory Committee has reviewed each of the other articles in the Warrant and—after public discussion with sponsors, petitioners, proponents, and other interested citizens—has provided comments and recommended motions that reflect the relevant points made during the Committee’s deliberations.

The Advisory Committee is most grateful for the assistance and support of Town Administrator Ted Alexiades, Assistant Town Administrator Betty Foley, Town Accountant Sue Nickerson, and the Committee’s administrative point-person, Lynn Phillips—their diligence and timely support has enabled the Advisory Committee to better represent and serve you.

As in past years, the Advisory Committee benefited from strong working relationships with the Board of Selectmen, the School Committee and Administration, Town Department heads, the Capital Outlay Committee, the Community Preservation Committee, and the numerous other Town Boards, Commissions, and Committees with which the Advisory Committee and its liaisons routinely interface. Continued collaboration, mutual respect, and teamwork benefit everyone.

Hingham continues to be well served by the extraordinary efforts of its many capable and responsible employees and volunteers. The Advisory Committee thanks them all for their contributions.

THE ADVISORY COMMITTEE

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